Plantation

OVERWEIGHT
(Maintained)

El Nino 2026-27: A Lagged, Asymmetric Bull Case For CPO

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Highlights

- **El Nino is developing, but its impact on palm is lagged and asymmetrical.** The NOAA has issued an El Nino Advisory, with a 63% probability of very strong intensity by the November-January peak. The impact on palm supply typically lags the event by 6-18 months, so dryness in Southeast Asia during 2H26 would tighten output and support prices in 2027 rather than immediately.
- **Firm soybean oil keeps the SOPO premium wide.** The US Department of Agriculture (USDA) projects a larger 2026/27 US soybean crop of 4.44b bushels; however, record crushing and biofuel-driven demand have lifted soybean oil to around 70 US cents/lb, with US exports near zero. Tighter soybean oil supply should hold the soybean oil-palm oil (SOPO) premium above its five-year average of around US$250/tonne through 2H26, supporting palm as the cheaper substitute for price-sensitive Indian and Chinese buyers.
- **Maintain OVERWEIGHT.** We prefer pure upstream leverage and East Malaysian yield exposure as the cleanest expressions of a lagged CPO-bull scenario. We reiterate our CPO price assumptions of RM4,500/RM4,400 for 2026/27, with a severe El Nino episode being a key upside risk to 2027 supply. SD Guthrie and Hap Seng Plantations (both BUY) are our top picks.

Analysis

- **For the palm belt, an El Nino episode typically entails suppressed rainfall, higher temperatures, longer dry spells, and in severe years, transboundary haze.** El Nino is currently at Advisory status per the US National Oceanic and Atmospheric Association (NOAA), with a 63% probability of reaching very strong intensity by the November-January peak, a view World Meteorological Organisation (WMO) broadly corroborates at about 80% odds of a strong-or-greater event.
- Two mechanics drive palm oil price movement during an El Nino episode:
  - **El Nino brings favourable moisture to major soybean-producing regions.** Generally, the event would bring above-normal rainfall in the Americas, supporting Argentina and southern Brazil's soybean yields during their harvesting season in 2027 (with a tail risk that a very strong event leads to disruptive floods, as seen in Argentina in 2016).
  - **The impact on CPO supply lags by 6-18 months.** Moisture stress, frond desiccation, flower abortion and bunch failure typically lead to lower fresh fruit bunches (FFB) yield and oil extraction rate (OER) after a delay of at least six months, commonly around nine months for a strong event. Hence, a drought event in late-26 should tighten supply and drive a rally in 2027 (refer to table overleaf).

Segmental Rating

Segment	Rating
Malaysia	OVERWEIGHT

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	HAPL MK	BUY	2.27	2.47
SD Guthrie	SDG MK	BUY	5.98	6.90

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

	CPO Price (RM/tonne)
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306
Our Forecast:	
2026F	4,500
2027F	4,400
CPO Price:	
MPOB @ 29 Jun 26	4,497
BMD 3rd Month @ 30 Jun 26	4,546

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 1 Jul 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (lcy)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.27	2.47	8.8	Dec-26	11.4	7.7	7.5	5.3	5.9	1,759.3	0.8
Genting Plantations	GENP MK	HOLD	5.29	5.44	2.8	Dec-26	12.1	11.6	10.9	4.5	6.9	4,755.0	1.0
IOI Corporation	IOI MK	BUY	4.23	4.90	15.8	Jun-26	17.7	17.3	15.5	2.7	12.7	26,586.4	2.1
KL Kepong	KLK MK	BUY	20.98	24.65	17.5	Sep-26	27.1	14.5	12.8	3.1	5.8	23,119.6	1.6
SD Guthrie	SDG MK	BUY	5.98	6.90	15.4	Dec-26	21.4	19.1	20.7	3.0	12.2	41,494.3	2.3

Source: Bloomberg, UOB Kay Hian

- **Palm is the marginal vegetable oil and trades at a discount to soybean oil.** The extent to which El Niño drives CPO prices depends less on the rainfall deficit itself than on whether the broader soft oils complex (soybean oil and rapeseed oil) is affected simultaneously. The USDA is forecasting a larger 2026/27 US soybean crop of 4.44b bushels on trend yield. Meanwhile, record crushing and biofuel-driven demand have lifted soybean oil price to around 70 US cents/lb, with US soybean oil exports near zero and the domestic balance increasingly disconnected from the rest of the world. In short, soybeans are in ample supply while near-term global soybean oil remains tight. This combination should keep the SOPO premium wide and supportive over 2H26, holding above its five-year average of around US$250/tonne.

Historical CPO Price During El Nino Episodes

Palm oil, RM/tonne (monthly avg)
1997-98
2002-03
2009-10
2015-16
2023-24
2026-27
Developing El Nino 2026-27
Red bands: very strong / strong El Nino. Amber: moderate. Monthly average CPO. Source: IMF/World Bank palm oil (US$/t), FRED DEXMAUS; FX-matched.

Source: MPOB, UOB Kay Hian

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We prefer pure upstream leverage and East Malaysian yield exposure as the cleanest expressions of a lagged CPO-bull scenario, balanced against names with a biodiesel-demand tailwind. We reiterate CPO assumptions of RM4,500/RM4,400 for 2026/27, with a severe El Nino event being a key upside risk amid tighter supply in 2027.
- **SD Guthrie (BUY) and Hap Seng Plantations (BUY) are our top picks**. We like SD Guthrie as a liquid big-cap play on the bullish CPO price backdrop, and it is also supported by the positive narratives of its pivot towards renewable energy and industrial park development. In addition, pure-play Hap Seng Plantations still trades at an inexpensive valuation and offers an attractive dividend yield of 5.3%.

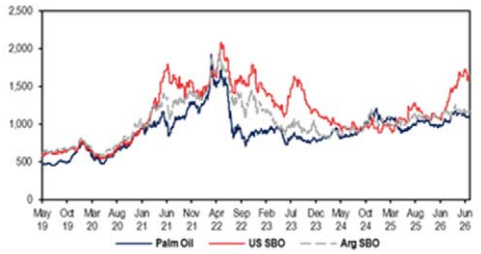
Sector Catalyst/Risk

- **A further decline in crude oil price.** POGO widening past RM600/tonne could threaten biofuel economics in Indonesia.
- **RONI undershoots expectations.** The ocean runs hot but the rainfall deficit over the palm belt disappoints, and the 2027 yield drag may not materialise.
- **Indonesian exports normalise steeply.** Post-DSI exports plus PT Agrinas estates may flood the global veg oil market during 3Q/4Q26.

Very Strong El Nino Event and CPO Price Response in 2015-16

Source: MPOB, UOB Kay Hian

CPO and SBO Prices



Source: Bloomberg, UOB Kay Hian

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